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THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Officers

9 September 1981

NOTE FOR THE DCI

FROM: C/NIC

Here are some points for your NSC
meeting on the Defense Budget
this afternoon.

[Redacted]
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CC: D/NFA

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KEY POINTS ON THE PROPOSED DEFENSE BUDGET CUTS

1. The proposed OMB cut is a shocker. The higher of the two proposed OMB levels implies no change in real TOA from FY 1982 to FY 1983 (a nominal increase from \$221 billion to \$237 billion, roughly offset by 7 percent in expected inflation). Real outlays would continue to increase in FY 1983 from FY 1982 (because of the backlog in TOA) by about 8 percent (\$184 billion to \$212 billion a year minus 7 percent for inflation). The OMB proposes resuming higher TOA growth in FY 1984. If one believes in the reality of the OMB promised future year growth, one will believe anything.

2. There are a few "big ticket" items that might be dispensed with with no great loss in security (such as the MX), but a cut of the magnitude proposed by OMB would necessarily fall on defense procurement generally. It would drastically scale back the long-overdue modernization of our forces. For an Administration which has emphasized the importance of supply-side economics, it would be ironic if one of its principal decisions in its first year is to rescind a crucial supply-side initiative in defense production just as our defense industrial base is beginning to be rebuilt.

3. The Soviet leadership has been uncertain about how seriously to take the Reagan Administration. On the one hand, we have taken a much harder line on arms control, are more vigorously countering Soviet-backed actions around the world, and have undertaken larger defense programs than the Soviets probably expected at the outset. On the other hand, we have shown softness on grain sales, have been inhibited in taking effective counteractions against Soviet/Cuban moves in Central America, and are moving slowly to reverse the unfavorable military balance in the Persian Gulf area.

From the Soviet perspective, the most impressive action the Administration has taken is its defense buildup. If fully implemented, it could drastically change the power balance to the Soviets' disadvantage. If the OMB cut prevails, the main prop will be removed from the Administration's determination to compete vigorously against the extension of Soviet power in the world.

Moreover, our problems of leadership with the Europeans and Japanese, already difficult, will be much more troublesome if, in effect, we continue with a Carter-Administration-like defense program rather than the needed one we embarked on.

4. There are quite a few people (from the Carter Administration plus others) who will rejoice at the early collapse of the Reagan Administration's defense buildup program. They have held all along that our only viable course is to seek arms control agreements with the Soviets and to pursue some version of detente. (For example, see John Newhouse's Op Ed piece in yesterday's POST.) One can be sure that calls for intensified arms control efforts will grow.

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5. If the Administration effectively decides that it is not prepared to compete head to head with the Soviets in military power, it will have to do one of two things:

- explicitly narrow our perceived vital interests to fit our reduced means.
- resume the arms control/detente charade (which is a way of concealing from ourselves that we are, in effect, narrowing our sphere of interests and influence).

Either of these courses would be incompatible with meeting the real challenges that we will face in the 1980's. We cannot know with any certainty precisely what it is that deters the Soviets, but surely the reality of markedly stronger American military strength has to contribute importantly to discouraging them from foreign aggression. If our weakness encourages them in the belief that they can move, e.g., against Iran or elsewhere, the cost to us in the end will be very much greater than the amount the OMB is trying to save.